

The way of doing business has changed profoundly in recent years for satellite operators, and what used to be a relatively simple business model is quickly turning into a significantly more complicated and diversified enterprise. Robert Bell, Executive Director of the World Teleport Association (WTA), explains why the satellite industry must start 'thinking retail' if it is to ensure its place in the global information infrastructure.

## Goodbye wholesale, hello retail

▶▶ **Remember when operating a satellite fleet** was simple? Of course, it was never simple in technical or operational terms. But on a fundamental level, it was one of the greatest businesses since the invention of commercial property.

You paid US\$250 million to build and launch a satellite, after all the filings and negotiations to gain the right to occupy and transmit from an orbital slot. It was expensive real estate - but you sold annual or multi-year leases on most of the transponders for between \$1 million and \$2.5 million per year, and kept some in reserve for occasional use. Hey, presto, you got your money back in five to ten years, with superb cash flow along the way. It could be a high-risk business, particularly when the industry went through one of its periodic capacity gluts. But whenever demand picked up, there seemed to be plenty of takers ready to put more communications real estate into orbit.

### Bygone days

Today, however, my friends in the business are routinely working ten to 12 hours days and wondering whatever happened to the golden age.

What changed? One factor is certainly the business downturn that followed the popping of the telecom bubble. Capacity utilisation is down in most parts of the world. The thousands of kilometers of optical fibre laid at the height of the boom is now available at rock-



*The signs of a good market! Image: PhotoDisc*

bottom prices, putting radical pressure on margins. But there is a more profound trend at work - and it obliges both satellite and teleport operators, space and ground segment, to think carefully about today's business and the shape it will take tomorrow.

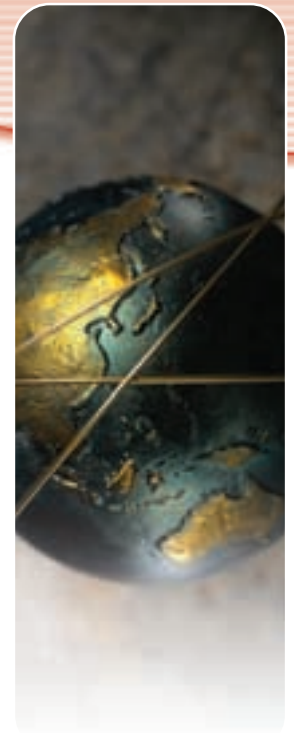
The trend is a reduced long-term demand for basic, bent-pipe circuits, sold a full transponder at a time, and increased demand for what are fashionably called 'end-to-end solutions.' Personally, I prefer to think of it as moving from a wholesale model to a retail one.

A wholesaler buys in big quantities from a small group of manufacturers and sells to a larger group of retailers. It is the retailers who are in contact with the end-customers. It is at the retail level that products and services command the highest prices, which is why the revenues of retail companies typically outstrip by far those of their wholesalers. Of course, those higher revenues come with higher costs and greater complexity, which makes retail a very challenging business. But it is inarguable that the retail level taps the greatest value in the chain of transactions from manufacturer to end-user - in fact, the only value, because without the end-user, the wholesaler and manufacturer are out of business.



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### From satellite TV to vehicle tracking

Today, running a satellite fleet is still mostly a wholesale business, but it has begun a transition to retail. This has its origins in the introduction and explosive growth of Direct-To-Home (DTH) satellite Television (TV) that, for the first time, made satellite communications part of mass consumer culture. But it did not stop there. Other applications followed, from cheap Global Positioning System (GPS) devices to broadband Internet via satellite, vehicle tracking to satellite imagery. Low Earth Orbit-based (LEO) satellite telephony soared high in the imagination of investors and the public, only to come crashing down in flames.

Yet United Arab Emirates-based (UAE) Thuraya continues to build a GEO-based business that combines satphones with Global System for Mobile communications (GSM) mobile that is available to customers in one-third of the globe. It does not matter that, in most of these applications, the satellite provider is still a wholesaler of capacity. What matters is the change in consumer perception. It is quiet yet fundamental changes in perception like this that can drive markets in new directions. For more and more people in business around the world, satellites have ceased to be an invisible part of the infrastructure. Instead, they are starting to be viewed as potential solutions to important problems.

The first evidence of this shift in perception is the rapid rise of specialised niches. For most of its history, satellite communications had only two significant kinds of customers: companies that distribute television and radio programming, and companies that carry telephony, mobile and paging traffic. Both were buyers of plain vanilla, bent-pipe circuits. Today, new niches are taking shape every couple of years. Maritime communications, once the exclusive province of Inmarsat, are now provided by a host of specialized Very Small Aperture Terminal (VSAT) providers, from Schlumberger to Telenor Satellite Services. The Internet Protocol (IP) niche continues to grow as demand for Internet and Voice over IP (VoIP) keeps rising, and companies from Verestar to Hawaii Pacific Teleport have evolved to handle it. Satellite circuits are being integrated with terrestrial wireless by companies like Globecom Systems to provide rapid deployment of telephony, Internet and television in formerly underserved nations. Teleport operators like GlobeCast and Ascent Media with deep roots in broadcasting are seeking to drive deeper still, by integrating production, post-production, content management and distribution in a single company. In the wake of 9-11, the US Govern-

### The WTA

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WTA is a nonprofit trade association of teleports, satellite and terrestrial carriers, technology providers, investment houses and consultants in 20 nations around the world. Headquartered in New York City, WTA has an Asia Secretariat in Tokyo and a Greater China Bureau office in Hong Kong. The association helps its members build their businesses by educating them on issues, researching their markets, feeding them sales leads from potential customers around the world, and connecting them to strategic allies. ■

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ment has become a major customer for operators from PanAmSat and Intelsat to SES Americom and JSAT, and they are rushing to set up government services divisions to meet the unique needs of these sovereign customers.

### Best hope for the future

The list goes on and on, as companies sense the need to find niches and grow them. In the process, they have to develop different relationships with their customers: more hands-on, more flexible, more responsive and able to cope with the rising complexity of customer need. This makes the business increasingly challenging - and accounts for those long hours my friends have to work as their companies struggle to adapt - but it also offers the best hope for its future prosperity.

The satellite industry has always been a conservative one. The technical challenges were daunting enough - who needed a challenging business model as well? That conservatism, particularly in financing, has stood the industry in good stead during the downturn. But while remaining financially cautious, the satellite industry must start innovating in a serious and continuing way in the services it delivers, how it delivers them, and to whom it delivers them. In short, the industry must start 'thinking retail' if it is going to cope with the low cost of fibre and ensure its place in the global information infrastructure. ■

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